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E.O. 12958: N/A
TAGS: [ECON](#) [EPET](#) [PGOV](#) [EG](#)
SUBJECT: PUBLIC FEARS OVER DIESEL, GASOLINE SHORTAGES

REF: 06 CAIRO 4596

Sensitive but unclassified. Please protect accordingly.

Summary

¶1. (SBU) Recent reported shortages of diesel fuel and low-grade gasoline throughout Egypt are prompting press and public speculation over a looming fuel crisis, although the GOE has assured the public that no such emergency is impending. Shortages of low-grade gasoline are likely a function of the GOE-strategy to wean consumers off of the most-highly-subsidized 80 octane fuel and onto more expensive, higher grades, whereas the pressures on the supply of diesel to the market could stem from multiple factors, including delayed imports and hoarding caused by rumors of imminent price increases. End summary.

Worries over Supply

¶2. (SBU) Stories of price hikes and shortages of gasoline and diesel fuel are reverberating in the Egyptian press and public; however, the GOE has issued assurances that no fuel crisis is looming. Press reports say shortages of certain grades of Egypt's highly-subsidized gasoline and diesel fuel are widespread in the governorates of Fayoum, Beni Suef, and Assiut (south of Cairo), and have been compounded by worries over imminent price increases at the pumps. Some analysts worry that supply shortages of diesel, coupled with increased prices on the black market, could evoke a highly-negative public reaction. They argue that given the large number of lower-income Egyptians who rely on diesel-powered minibus taxis for their daily transportation, and the primacy of road haulage for cargo transport in Egypt, a fuel shortage will only exacerbate the growing general public discontent over rising food prices.

¶3. (SBU) Although Egypt's retail gasoline and diesel prices are officially fixed, some trucking company operators have told us that shortages have pushed the black market cost of diesel, which normally sells for LE .75/liter (USD .14), to between LE 1/liter and LE 1.25/liter (USD .18 - .23) in a number of areas outside of the capital. An official from the parastatal Egyptian General Petroleum Company (EGPC) countered that the GOE has not set a date for any potential future price increases and that any diesel supply issues are a function of hoarding fueled by rumors. However, Egypt's publicly-acknowledged plan to reduce the fiscal burden of fuel subsidies, which gained steam in 2006, is ongoing, and speculation is rife on when and how the GOE will make its next move.

14. (SBU) Aside from doubling of the price of low-grade fuel oil (known as "mazut") in early 2007, Egypt last increased fuel prices in July 2006, when it boosted the prices of 90 octane gasoline, diesel, fuel oil, and kerosene (reftel). 80 octane gasoline, which is used mainly in poorer areas, was unaffected. At the time, the increases took a LE 3.5 billion (USD 642 million) chunk out of Egypt's overall fuel subsidy bill, which analysts estimated in 2007 as LE 40 billion (USD 7.3 billion) but have increased to around the LE 60 billion (USD 11 billion) mark this year.

Why the Shortages?

15. (SBU) Private sector industry officials tell us that the shortages of low-grade 80 octane gasoline are part of the GOE's strategy to reduce its fuel subsidy burden without explicitly raising gas prices by forcing consumers to move to the more expensive 90, 92, and 95 octane grades. Contacts in Alexandria tell us that 80 octane gasoline has been nearly non-existent there for months, and gas station owners in Fayoum report not having received shipments of 80 octane for several weeks.

16. (SBU) Shortages of diesel fuel have the greater potential impact on economy and the consumer, and some retailers report that shipments of diesel from EGPC have reduced in recent months and are falling well below demand. One station owner reported that his average turnover had been 25,000 liters/day; however, in the last four weeks EGPC only supplied him with 11,000 liters every two days. Similar stories are being reported throughout Egypt. Rumors regarding imminent GOE price increases, which are not supported by GOE statements, appear to be prompting hoarding and boosting black market prices. Some spill-over effects are already being seen in the trucking and transport businesses, with some company owners increasing haulage and passenger rates.

17. (SBU) A former EGPC official told us that Egypt is now more reliant on imports of refined products than previously, and that any delays in fuel shipment arrivals could pinch the supply. We are not aware of any specific shipment delays, nor have we heard reports of any extraordinary circumstances at Egypt's refineries in recent weeks. The press has quoted some academic commentators as saying that the GOE is deliberately squeezing supply in the short term to test potential public reactions to a new round of official price increases. Several contacts suggest that global diesel prices have increased the scale of the historical smuggling of Egyptian diesel by Greek and Cypriot bunker ships at the ports of Alexandria, Damietta, and Port Said, thereby restricting supply to the local market. Egyptian diesel can apparently fetch up to four times its domestic retail price at the ports.

Comment

18. (SBU) While rumors of an imminent increase in the price of diesel might have a measurable impact on stocks due to panic buying, the extent of the reduced supply to retailers as reported by gas station owners would indicate a more complicated situation. It is unclear at present what is impinging the supply, and how long it will last, but the likely price hikes (and gouging) by minibus taxi drivers and other road transport companies will add to the souring public mood over increasing costs of living.

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